

Home-Based Business Tax Avoidance Schemes Frequently Asked Questions

Q. Is it wrong to deduct costs associated with businesses, including Home-Based Businesses?

A. The tax laws allow individuals to claim legitimate business expenses. However, there are promoters who are suggesting that taxpayers can deduct most, or all, of their personal expenses as business expenses by setting up a home-based business. Any tax scheme that claims a person can deduct what would normally be personal expenses should be considered highly suspect. A business must truly exist prior to claiming business-related expenses.

Q. What should I do if I have deducted business expenses on a return that are actually non-deductible personal expenses?

A. If you believe you have incorrectly claimed expenses, you should file an amended return. If the amended return results in additional tax owed, you may also be subject to interest and penalties. However, amending your return may reduce the amount of penalties and interest that you eventually owe.

Q. What happens if I do not amend my return?

A. If your return is audited, the possible penalties, interest, and legal costs associated with an abusive tax promotion can be significant. Criminal penalties may also apply. This is in addition to the tax due and fees you paid for the promotion. You can contact the Internal Revenue Service at 1-800-829-1040, if you have any questions.

Q. The information presented by the promoter sounded legitimate. Now I have concerns regarding this promotion. Who do I contact to report information on the promotion and promoter?

A. Contact the Internal Revenue Service at 1-866-775-7474 or e-mail our Tax Shelter Hotline at <mailto:irs.tax.shelter.hotline@irs.gov>.

Q. Can I get more information on the Internet?

A. Yes. Additional information is available at the following sites:

www.ustreas.gov/irs/ci -- This site provides Tax Fraud Alerts and, explains how to report suspected tax fraud activity.

<http://www.irs.gov/irs/news/0,,i1%3D42%26articleId%3D26742.00.html> -- This site describes a number of common tax scams. If any of these apply to your investment, you should consult a tax professional not involved in promoting the investment. Or you may contact IRS to determine how it will treat such a promotion.

www.irs.gov -- Use the "Forms and Publication Finder" search function to locate the following IRS publications which will provide additional material on this subject:

Publication 587, Business Use of Your Home

Publication 463, Travel, Entertainment, Gift, and Car Expenses

Publication 334, Tax Guide for Small Business

Publication 17, Your Federal Income Tax For Individuals